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WHAT WILL EFFECTIVELY RESTORE BUSINESS?

By

E. B. LEIGH

"What will effectively restore business?" is the most urgent of pending questions. The answer given by Mr. Leigh in this address is condensed in a letter to Secretary Hoover which in delivery was read at the end, but which is here brought forward. Mr. Leigh declares that now as always large railway purchases are essential to business recovery and that railway buying depends upon gross railway earnings from larger traffic moving under lower rates and upon net railway income preserved through lower labor cost. His proposals are in harmony with those of the National Industrial Traffic League and should summon business men everywhere to active work for the result which we all desire.

ALBA B. JOHNSON, *President*

FRANK W. NOXON, *Secretary*

Railway Business Association
Liberty Building, Philadelphia
Sept. 29, 1921

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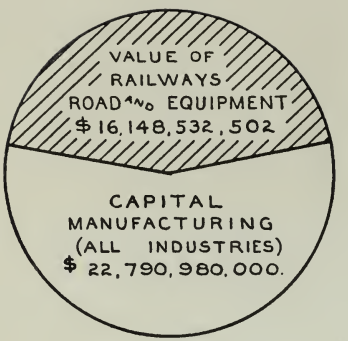

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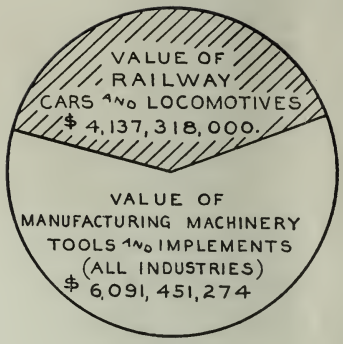

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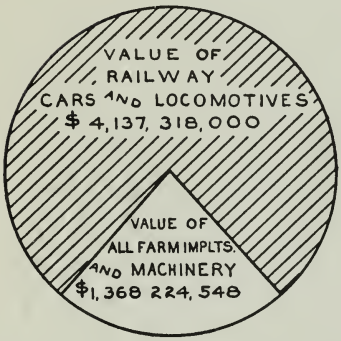

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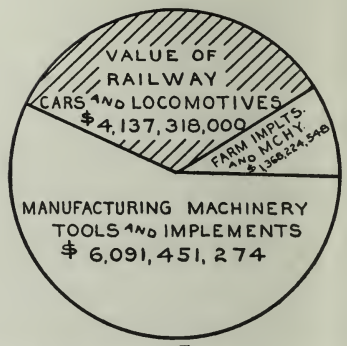

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VALUE OF RAILWAY PLANT COMPARED WITH THAT OF AGRICULTURE AND MANUFACTURING INDUSTRY.

Mr. Leigh's Letter to Mr. Hoover

Chicago, Sept. 27, 1921.

Hon. Herbert Hoover, Secretary of Commerce,
Chairman Unemployment Conference,
Commerce Building,
Washington, D. C.

My dear Mr. Secretary:

RESTORATION of national prosperity can be started on its way by just one factor—purchasing power. All substitutes are bootstraps or phantoms.

Among the sources of purchasing power the largest and most definitely available is the power of the railroads to buy material and labor for main-

tenance, additions and betterments. In normal years the railways directly and indirectly have consumed from 40 to 50% of the iron and steel production, admittedly the "barometer of business."

It is the history of depressions that recovery is always accompanied by resumption of large railroad buying, and never comes without it, the only exception being the war period. The business so initiated flushes the channels of all industry and trade, including agriculture, and favorably affects every inhabitant of every community.

Net Income Insufficient and Uncertain

AT PRESENT the railroads lack the money and the credit to finance proper maintenance, not to say additions and improvements. Their net income is neither sufficient nor certain. It is insufficient because railway labor cost is too high. It will be insufficient until labor cost comes down through wage cuts and through modifications of working conditions. It is uncertain because special groups of shippers are exerting pressure upon the roads and upon the Interstate Commerce Commission for privileged concessions, most of which where granted have resulted in little or no freight movement, which are unfair to other shippers who adhere to prewar procedure in the discussion of rate revision and which, if made general without wage reduction, would dissipate all hope of net income either adequate or stable, and postpone indefinitely that entrance into the market by the railroads without which no business recovery can be genuine or permanent.

In my judgment the Unemployment Conference could devise no remedy for current depression more effective than this:

What Shippers Can Do

PERSUADE every shipper who favors lower freight rates—

1. To participate in an organized effort to convince the Federal Railroad Labor Board that railway labor cost must be immediately and substantially reduced.

2. To refrain from enlistment of executive and legislative officers of the government for exertion of pressure upon the railroads or upon the Commission in connection with rates; and to employ exclusively in the discussion of proposed rate revisions negotiation with the carriers or, failing agreement with them, orderly procedure by testimony and argument before the Interstate Commerce Commission.

Rates and Wages Most Important

PURPOSELY the so-called railroad refunding bill is not bracketed with the factors next above specified. The reason for so treating it is that its great importance would be in direct relief to the railway supply industry, and in what I shall say I am discussing not the special needs of that industry but the needs of the whole nation. Somewhere near $500,000,000 may be made avail-

able for settlement of balances due the railroads by the government on current account if the sums due the government by the railroads on capital account can be funded. Somewhere between $200,000,000 and $300,000,000 may be due supply concerns from the railroads—remittances awaiting settlement of government balances. Therefore probably not much in excess of $300,000,000 would remain for new orders which at best would be temporary and not large compared with amounts permanently involved in the rate and wage problem. Not even the whole of this sum will be paid over immediately. Settlements are the result of negotiation, and take time. The Director General has predicted that the last will be completed by the end of 1922.

Speaking for the railway supply industry, in which my company does a part of its business, I desire to thank business men generally for the zeal and energy with which they have aided us in promoting passage of the refunding bill. Enactment will help us very much and the relief will be reflected beyond our craft. But this is a transitory phase and its importance, both immediate and in the long run, is greatly exceeded by that of the rate and wage questions.

Recovery Awaits Railroad Buying

ALTHOUGH the company with which I am connected has had for some years not to exceed 30% to 40% of its business with the railways, I have made for many years systematic observation of the relation between railway buying and general business prosperity. I have attached as an appendix to this letter the prolongation of a chart which shows that currently, as heretofore, general business resumption waits upon railroad purchases.

In discussing that topic I have exchanged ideas with many persons. Among those who have given it sustained thought there seem to be two classes. The first class are persuaded that in the upward climb from a depression the first stage is resumption of merchandise movement in such commodities as textiles, boots and shoes and other necessaries of the individual consumer, and that the consequent improvement in railroad earnings is reflected in railroad purchases which broaden and accelerate commercial and industrial resurrection. The other class, to which I belong, hold that as a matter of history it is railroad buying which itself initiates the whole movement, and that any recovery in general business before the roads come into the market is negligible. There is no present occasion for arguing which of the two classes is correct on the point where they differ, because the important point is that on which they agree; namely, that however it starts, a resumption of general business is strengthened and hastened by railroad buying and cannot be permanent without it.

Why Risk Protracted Doldrums?

APPLYING this doctrine to the present juncture, it is unnecessary for all concerned to harmonize exactly their views as to the stage of recovery, if any, which business has reached. The conclusion arrived at by each individual would depend upon the value assigned by him to various conflicting factors. We ought to be unanimous in this—that if merchandise buying is now on the upward trend large railroad buying will help mightily to give it permanence,

where otherwise it might fluctuate fitfully for many months; and that if those who think the tide has turned are unduly optimistic, large railroad buying will confirm their hope. Why run the risk of protracted doldrums and probably serious set-backs by neglecting so obvious an expedient?

Practical Measure for the Conference

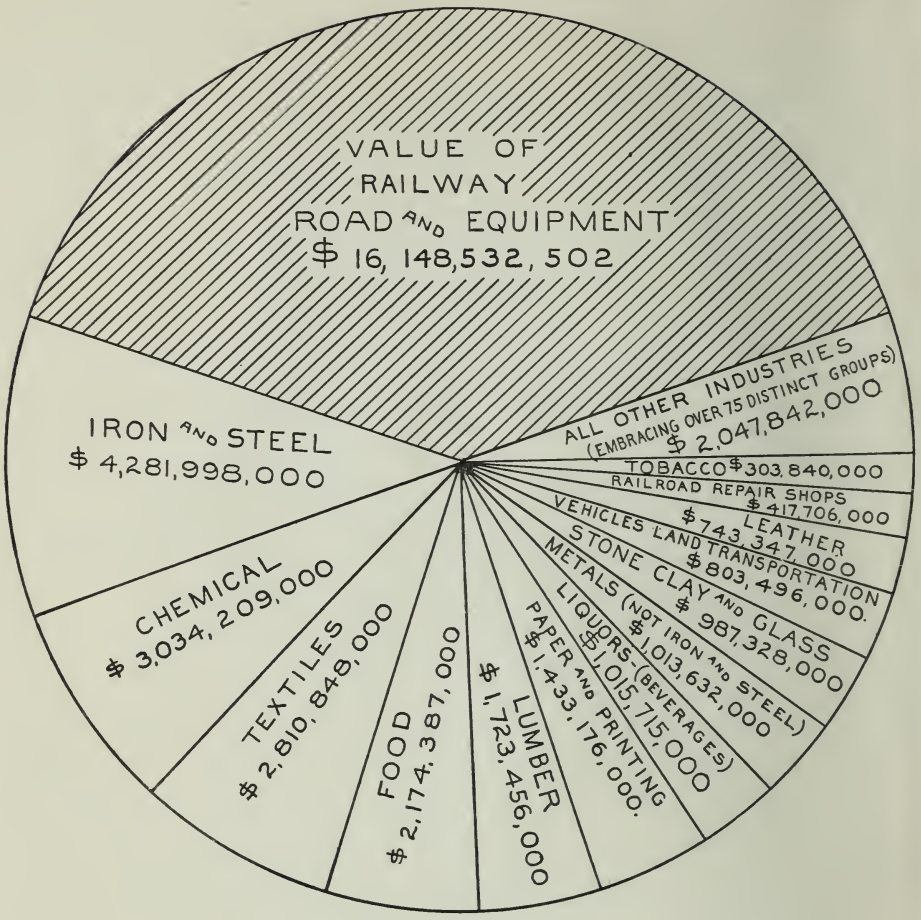
THE NOVEL ASPECT in the present situation is this—that whereas during about 20 years past recoveries have found the railways able to come into the market with some vigor, though steadily less in each recurring instance, the present occasion finds them almost utterly without the means to resume purchasing. Never in the history of our railways has their physical condition been at a lower ebb, or their need of rehabilitation greater.

It is respectfully suggested that the Unemployment Conference picture railroad buying and the requisites for its resumption to the public in such colors as will evoke an irresistible movement for railroad wage reductions and, that accomplished, and railway operating cost brought down, for reconsideration of railway rates by the Interstate Commerce Commission in orderly procedure as befits a quasi-judicial arm of the government charged by Congress with the responsibility of sanctioning tariffs under which the traffic can move and the railroads can grow.

With high respect,

Very truly yours,

E. B. Leigh.



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VALUE OF RAILWAY ROAD AND EQUIPMENT (ALL ROADS) COMPARED WITH THE CAPITAL OF ALL MANUFACTURING INDUSTRIES.

WHAT WILL EFFECTIVELY RESTORE BUSINESS?

By E. B. LEIGH

President Chicago Railway Equipment Co., before the National Conference of State Manufacturers Associations, Chicago, Sept. 29, 1921

WHAT will effectively restore business?

There are conclusive grounds for believing that the largest single factor in the present business depression is the enforced and continued curtailment of railway purchases. No factor which could now be introduced into the situation would do more to stimulate general business out of this depression than a vigorous resumption of railway buying. This conclusion, while applying with peculiar force to the state of affairs at this moment, is based upon a careful study and comparison covering a period of many years, showing the intimate relation between railway purchases and general business.

Comparatively few realize what a great factor the railways are in the buying field. Having this in mind, sometime ago it occurred to me to try to present this in some graphic form which would more quickly portray this fact, to give a sort of "background," as it were, for the more ready appreciation of this situation.

I have gathered some statistics, which will serve to more fully illustrate what I wish to bring to your attention.

SOME STATISTICS

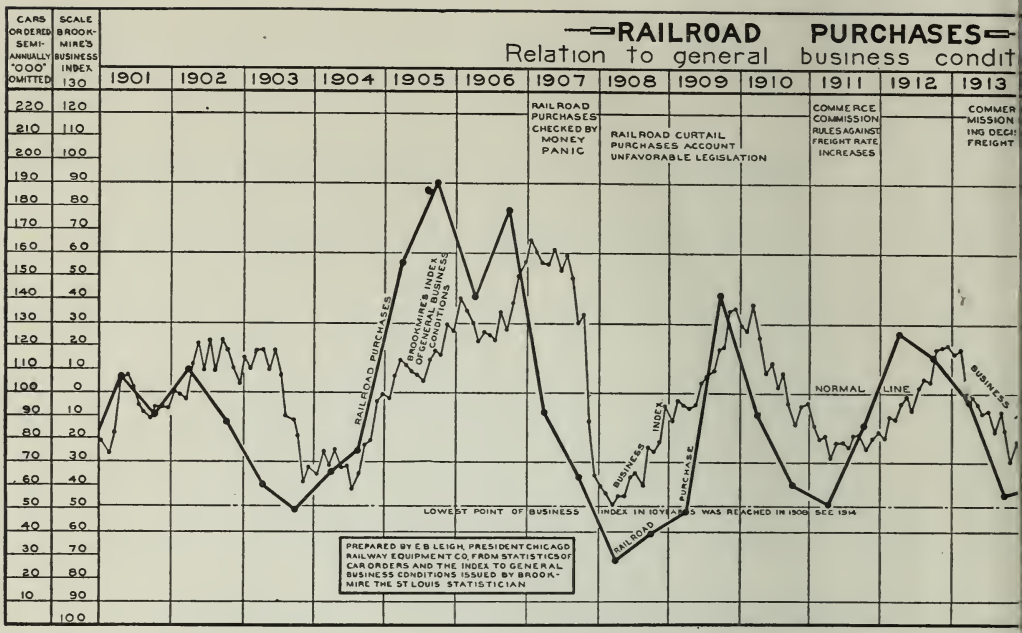
FROM FIGURES taken from the United States Bureau of Census report for 1914 (the latest available) comparisons have been laid out on Charts numbered 1 to 5. It is to be regretted that the Census figures for 1920 are not yet obtainable. These illustrations while not given as being entirely proof against critical analysis will serve to show "relation" in at least a general way.

Chart No. 1 shows shaded the then value of the Railways of the United States Road and Equipment: $16,148,532,502 and

In white the capital of all Manufacturing Industries of the United States, $22,790,890,000.

The relation of railway property, and that of capital invested in manufacture is thus clearly reflected.

Chart No. 2 is an enlargement of Chart No. 1, showing in detail the



relation and extent of the 13 leading manufacturing industries; all the other manufacturing industries (embracing over 75 distinct groups) are shown in one section.

Chart No. 3 shows (1) shaded, the then value of railway cars and locomotives only, at $4,137,318,000 and

(2) In white, the value of manufacturing machinery implements and tools (all manufacturing industries) at $6,091,451,274

SIZE OF THE RAILWAY INDUSTRY

THUS YOU WILL SEE that the then value of railways' road and equipment was about 70% as great as that of the capital of all manufacturing industries, or, a ratio of about 41% for railways and 59% for capital of manufacturing industries taken together.

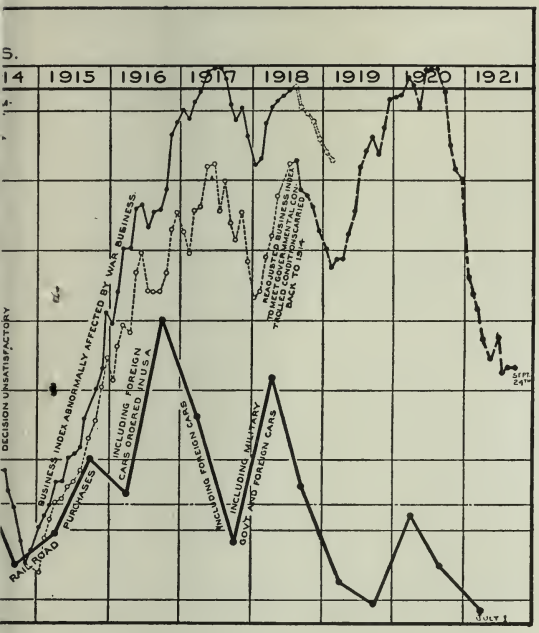
The value of railway cars and locomotives alone represented an amount about 70% as great as that of the value of machinery, implements and tools in all manufacturing industries, or, again taken together, a ratio of about 40% for the railways and 60% for manufacturing machinery, etc.

Chart No. 4 is a comparison of the then value of railway cars and locomotives with that of farm machinery, implements and tools:

(1) Shaded, cars and locomotives at $4,137,318,000; and

(2) In white, farm machinery, tools and implements at $1,368,224,548; or a value of cars and locomotives three times as great as that of all the farm machinery, tools and implements at that time.

Chart No. 5 is a combination of



Charts 3 and 4 showing for comparison:

(1) Shaded, cars and locomotives, $4,137,318,000;

(2) In white, larger segment, manufacturing equipment, machinery and tools, $6,091,451,274, and

(3) In white, smaller segment, farm machinery, implements and tools, $1,368,224,548.

With these facts before you, together with the large chart headed "Railway Purchases," I shall endeavor to make clear the doctrine to be presented.

OBSERVATIONS OF A QUARTER CENTURY

FOR MORE than 25 years past I have observed the effect of railway purchases upon general business prosperity—induced by the fact that in my business (a portion of which is that of railway supplies) I had noted that when the railways of the country entered the field of substantial capital purchases, there invariably followed a period of general business prosperity; and, likewise, the cessation of such purchases was invariably followed by a decline in general business.

More and more impressed with this, in the year 1913, and with data then carefully collected from the year 1904 to that time, I set to work to test out this principle.

RAMIFICATIONS

INASMUCH as the railways of this country constitute its greatest industry next to that of agriculture; with but one thing to sell—transportation; the ultimate consumers of everything they buy; their purchases extending substantially throughout almost every department of business; many of them on a tremendous scale; it must be obvious how potent a factor they are in general business conditions.

As the iron and steel industry has long been recognized as being the truest index of general business conditions, and as prior to 1914 it was reliably estimated that the railways consumed, directly and indirectly, between 40% and 50% of the iron and steel production of the country, it is manifest that the expansion or restriction of railway consumption must vitally affect this barometer.

FREIGHT CARS ORDERED THE INDEX

THE RAMIFICATIONS of railway purchases make it impossible to classify them in the aggregate. But many years of observation led to the belief that no item so clearly and typically reflected the railways' general purchasing ability as that of new equipment, and no other tabulation has been as

regularly and accurately kept, hence adopted as being the truest index of general railway buying; for when the roads are buying freely of new equipment, they are likewise buying freely of all other articles essential to maintenance, operation and betterment.

Accordingly, the number of freight cars ordered each year taken as a unit and termed "railway purchases," has been projected on the well known chart of the Brookmire Economic Service for the period of 1901 to date, as shown on the chart now offered. This could be carried back to many years earlier had we the business index for those years.

SIGNIFICANT PARALLEL

WHILE the "general business" line is, of necessity, a deduction from the elements used, nevertheless these deductions have been made on the same mathematical basis, hence for purpose of affording a comparison this line is mathematically correct.

The "railway purchases" line represents the actual number of cars ordered during the periods noted and officially confirmed.

The general business line is shown in monthly periods, while the railway purchases line is given in six-month periods.

Thus, on this chart "railway purchases" and "general business" are shown: their relation traced over a period of twenty successive years. This chart, based upon indisputable facts, clearly demonstrates a proposition which the speaker has taken occasion to set forth in the following phrase:

"RAILWAY PURCHASES MEASURE GENERAL BUSINESS PROSPERITY."

HISTORY REPEATS

THE PERIOD preceding 1907 was one of increasing net income for the railways. Their revenue keeping pace with expenses, it was the custom of railway managers generally to discount future requirements in ordering equipment, and they felt they could with prudence count upon resources warranting these large operations. The chart shows that car orders reached a maximum in 1905 and 1906.

But in 1908 a new condition or factor appeared, due to the investment of the rate-making power in the hands of the Interstate Commerce Commission—the beginning of a regulation which had in it no element of responsibility for transportation development. The act of 1920 has greatly bettered this condition.

Thus, for the first time were "railway purchases" controlled by abnormal rather than normal conditions; and have so continued, more or less, from 1908 to the present time. I shall not take the time to trace each year, only referring to some years which indicate exceptional conditions.

WAR BUYING

IT WAS STATED in 1913 that it was believed railway purchases were and would continue to be the controlling factor in general business until or unless some other great purchasing power developed or came to take their place.

Then the unexpected happened; the great European war broke out, resulting in war buying supplanting railway buying. It was not until well within 1915 that the effect of foreign, munition and war work orders was substantially felt by us; but the chart shows a gradual yet steady climb of the business line during the first

six months, somewhat accelerated throughout the last half of the year, and not measurably accounted for by railway purchases.

EXCEPTIONAL PERIOD

IN 1916 we find the phenomenon of steadily advancing general business with declining railway purchases during the first six months, although railway purchases were greatly augmented during the last half of that year, aided by the foreign cars bought in this country.

In August, 1918, Brookmire readjusted his barometer index owing to the government control of prices of a number of basic or fundamental commodities, and carried this readjustment back to the year 1914. This I have shown in the open spaced lines.

During the period of active war operations many industries classified as non-essential, and certain products of others were greatly restricted; so that we entered the year 1919 with a great shortage of many classes of goods.

With the removal of the war restrictions coupled with the high wages earned, and augmented by the preceding period of unexampled prosperity, many industries sprang into great activity—among them were jewelry and silverware, musical instruments, rubber, tobacco and especially automobiles; and last but not least, our enormous exports.

All these conditions combined to maintain a level of general business which ordinarily would not have obtained. Beginning in the latter part of 1920 the tide turned, and since then we have been headed toward normal conditions.

NORMALCY EXPECTED BACK

IT IS CONFIDENTLY believed that railway buying will again resume its normal relation to general business. Even the upheaval of the world war failed to obscure the principle of the doctrine; while on the other hand its manifest presence in that situation seems only to emphasize further its soundness.

Had I the time I might trace for you, in graphic form, the flow of this controlling current. Issuing forth from the railways, it proceeds first to the great car-building plants; thence on to the iron and steel plants and to the very large number of railway supply industries. By the latter it is again directed toward the iron and steel and other industries—thence in turn influencing a highly increased number of other and contributory industries, until this influence has reached or set in motion the entire industrial machinery—while at every turn and in every direction it has furnished employment to labor. Prosperity and employment are synonymous terms, as, conversely, are stagnation and unemployment.

Thus, labor as a matter of fact is more directly and vitally concerned in this great problem than any other single element.

There is one industry which has made such gigantic strides and assumed such vast proportions, particularly in the past four or five years, that I will briefly refer to it. The automobile industry and its relation to the Iron and Steel Industry may be interesting:

RAILROAD AND AUTOMOBILE BUYING

A BUSINESS writer of country-wide reputation recently quoted a pig iron manufacturer as having said:

> "There is a false notion that the railroads are our biggest customers. In the greatest year of railroad pur-

chasing the total was 3,000,000 tons out of a total of 36,000,000 tons. The automobile business plays a larger part in our industry than does the railroad."

Let us examine the record.

The greatest year of automobile *production,* not sales, was 1920, when there were produced 1,883,158 passenger auto cars and 332,039 auto trucks, or a total of 2,205,197.

The amount of iron used in the average passenger automobile, according to Government survey during the war, is 630 lbs.

A single railroad car wheel (8 to a car) weighs 700 lbs. The average production is 3,000,000 wheels per year; with a maximum production of approximately 6,000,000 wheels.

The amount of steel exclusive of springs and alloy steel weighs 750 lbs.

A single car axle (5 x 9 smallest size), smooth forged, weighs 750 lbs.

The average production of steel rails is 2,500,000 tons per year; the maximum 3,636,031 tons.

Without attempting to mention the "thousand and one" other articles going into railroad construction and use, the facts just cited will suffice to at least challenge this pig iron manufacturer's statement, as quoted.

The 1919 figures show 1,657,652 passenger automobile cars and 316,364 auto trucks produced. These consumed 4% of the total iron and steel production of that year.

IT IS OBVIOUS that adequate railway revenues are essential to adequate railway purchases; that adequate railway purchases are fundamentally essential to general business prosperity; that general business prosperity means the prosperity and well-being of the entire nation.

[In conclusion, Mr. Leigh read his letter to Secretary Hoover, which forms the introduction to this pamphlet.]

REQUESTS FOR COPIES of this leaflet will be welcome from all those desiring to place it in the hands of their representatives or friends. Copies furnished or sent direct to lists upon application to Frank W. Noxon, Secretary Railway Business Association, 600 Liberty Building, Philadelphia.

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